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Municipal and County Finance

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Wisconsin's local government system is comprised of cities (190), towns (1,245), villages (415), counties (72), school districts (421), technical college districts (16), and a number of other special purpose districts. This paper provides an overview of the financial characteristics of Wisconsin's general purpose local governments -- towns, villages, cities, and counties. It includes descriptions of expenditure and revenue patterns and the role of intergovernmental revenues in local finance. It concludes with a brief discussion of the rationale for state aid programs.

Even though local governments adopt balanced budgets, current year revenues and expenditures may not be exactly equal. Balances from previous years may fund current year services, and outlays may be part of a multi-year capital project funded with proceeds from debt issued in a prior year. Also, revenues may fluctuate above or below budgeted levels due to economic conditions. This is particularly true for interest income, licenses and permits, and sales or excise taxes. In this paper, Tables 1, 2, and 3 present statewide revenue and expenditure data compiled from annual financial reports filed by municipalities and counties with the Department of Revenue (DOR) for 2021, as reported in December, 2022.

Municipal and County Expenditures and Revenues

Expenditures

An examination of expenditures illustrates the variation in local government service levels. Table

1 presents 2021 statewide total and per capita expenditures of towns, villages, cities, and counties for 10 categories of general operations. The totals include amounts expended by local enterprises, such as electric, gas, water, or other utilities. Appendix I supplies a more detailed listing of the items included in each function.

Several points relevant to the data should be noted. First, some functions are not uniformly provided by all local governments. Second, governments do not use uniform methods for allocating costs to the various expenditure categories. Third, service levels may vary due to factors other than population. For example, high per capita expenditures for public safety in a municipality may be due to a concentration of commercial and manufacturing property, as opposed to a high service level for the residents of the municipality. Also, total debt service amounts reported may include bond proceeds used to repay refunding bonds. Despite these cautions, the expenditure data can be used to draw some general conclusions about local government services.

Cities and villages had the highest per capita level of expenditures, followed by counties. Towns had the lowest per capita expenditures of all local government types. For both cities and villages, the three largest categories of expenditures were public safety, transportation, and principal and interest payments on debt. Collectively, these categories comprised 57.6% of total city expenditures and 63.6% of total village expenditures in 2021. For counties, the largest expenditure category was health and human services, which comprised 30.7% of county expenditures. Transportation was the dominant expenditure category for towns, comprising 44.7% of town expenditures in 2021.

Table 1: 2021 Expenditures of Municipalities and Counties

	Towns			Villages		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$148,026,426	\$92	13.4%	\$164,157,491	\$159	7.4%
Public Safety	174,679,444	108	15.8	402,894,689	391	18.3
Health and Human Services	3,790,251	2	0.3	13,031,644	13	0.6
Transportation	495,905,497	307	44.7	538,989,361	523	24.4
Sanitation	77,097,469	48	7.0	107,561,245	104	4.9
Recreation and Education	28,405,592	18	2.6	114,966,782	112	5.2
Conservation and Development	24,782,836	15	2.2	135,250,968	131	6.1
Principal and Interest	136,777,919	85	12.3	460,475,986	447	20.9
Operation of Utilities	10,129,058	6	0.9	250,630,000	243	11.4
Other	8,841,290	5	0.8	17,413,194	17	0.8
Total	\$1,108,435,782	\$686	100.0%	\$2,205,371,360	\$2,140	100.0%

	Cities			Counties		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
General Administration	\$542,883,633	\$167	6.4%	\$1,006,715,319	\$171	12.0%
Public Safety	1,929,622,202	595	22.6	1,332,806,355	226	15.9
Health and Human Services	155,758,491	48	1.8	2,575,971,843	436	30.7
Transportation	1,688,668,425	521	19.8	1,380,041,149	234	16.5
Sanitation	384,801,652	119	4.5	137,122,544	23	1.6
Recreation and Education	537,302,303	166	6.3	373,676,643	63	4.5
Conservation and Development	512,497,741	158	6.0	189,771,106	32	2.3
Principal and Interest	1,295,243,157	399	15.2	585,680,684	99	7.0
Operation of Utilities	1,197,339,904	369	14.0	13,163,284	2	0.2
Other	287,035,030	88	3.4	785,879,097	133	9.4
Total	\$8,531,152,538	\$2,630	100.0%	\$8,380,828,024	\$1,419	100.0%

Table 2: 2021 Revenue Sources of Municipalities and Counties

	Towns			Villages		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes	\$497,120,326	\$308	41.4%	\$801,012,139	\$777	35.8%
Intergovernmental Revenues	356,607,185	221	29.7	238,380,814	231	10.7
Licenses and Permits	23,299,388	14	2.0	44,542,335	43	2.0
Fines and Forfeitures	2,861,231	2	0.2	11,551,352	11	0.5
Public Charges for Services	86,152,499	53	7.2	381,907,354	371	17.1
Intergovernmental Charges	7,789,243	5	0.7	72,832,485	71	3.3
Long-Term Debt	175,736,555	109	14.6	365,464,342	355	16.3
Interest Income	5,265,919	3	0.4	4,574,662	4	0.2
Utility Revenues	9,832,166	6	0.8	236,899,770	230	10.6
Other	35,699,410	22	3.0	78,063,622	76	3.5
Total	\$1,200,363,922	\$743	100.0%	\$2,235,228,875	\$2,169	100.0%

	Cities			Counties		
	Amount	Per Capita	Percent	Amount	Per Capita	Percent
Taxes	\$2,764,662,336	\$852	31.0%	\$3,005,901,848	\$477	33.7%
Intergovernmental Revenues	1,515,513,639	467	17.0	2,142,729,531	363	24.0
Licenses and Permits	113,152,965	35	1.3	32,889,119	6	0.4
Fines and Forfeitures	38,131,487	12	0.4	24,968,340	4	0.3
Public Charges for Services	1,368,389,610	422	15.4	1,307,436,833	222	14.7
Intergovernmental Charges	497,238,335	153	5.6	1,132,038,357	192	12.7
Long-Term Debt	1,047,886,618	323	11.8	530,619,612	90	5.9
Interest Income	17,485,165	5	0.2	19,364,990	3	0.2
Utility Revenues	1,260,615,396	389	14.1	10,171,198	2	0.1
Other	284,910,919	88	3.2	709,470,039	120	8.0
Total	\$8,907,986,470	\$2,746	100.0%	\$8,915,589,867	\$1,511	100.0%

Revenues

Revenue patterns for towns, villages, cities, and counties for 2021 are displayed in Table 2. The table includes 10 revenue sources, which are described in more detail in Appendix II. In addition to total revenue collected, Table 2 reports per capita amounts and the percent that each revenue category is of total revenues.

Total revenues were comparable to the corresponding expenditure totals for each type of local government. Thus, the highest per capita revenues were recorded in cities (\$2,746) and villages (\$2,169), followed by counties (\$1,511) and towns (\$743).

Taxes, intergovernmental revenues, and public charges for services combined accounted for 60.0% or more of total revenues for each governmental type in 2021. For each type, taxes represented the largest revenue source -- 41.4% for towns, 35.8% for villages, 31.0% for cities, and 33.4% for counties. Intergovernmental revenues was the second largest revenue source for towns (29.7%) and counties (24.0%), while public charges for services was the second largest revenue source for villages (17.1%) and cities (15.6%).

Intergovernmental Revenues

Detail on 2021 intergovernmental revenues (IGR) is provided in Table 3. Aids are arranged under three broad categories: (1) direct federal aid; (2) state aid, including federal aid paid through the state; and (3) aid from other local governments. Counties receive most of the federal aid paid through the state. Separate figures are shown only for the larger aid programs, and most lines include several separate aid programs that fund similar

types of local service. State aid does not reflect state property tax credits, which, although paid to municipalities and counties, must be passed through to taxpayers as a credit against gross property taxes.

Revenues received from the state, including indirect federal aid, made up 77.0% of IGR received by towns, 79.2% of IGR received by villages, 70.0% of IGR received by cities, and 80.7% of IGR received by counties. The largest sources of state aids to municipalities were county and municipal aid, including public utility aid, and state transportation aid. While transportation aids were also a significant source of state aid to counties, the bulk of the aid received by counties was in the health and human services area.

Direct federal aid has historically played a relatively small role in intergovernmental revenues. However, part of the federal response to the COVID-19 pandemic included the transfer of additional funds to local units of government, for a variety of purposes. As such, federal aids received in 2021 comprised a larger share of total intergovernmental revenues compared to previous years. Cities received \$115 per person in direct federal aid, which equaled 24.7% of their total IGR. Counties received \$68 per person, or 18.7% of their total IGR. Direct federal aid averaged \$42 per capita for towns and \$34 per capita for villages, or 19.2% and 14.6% of their total IGR, respectively.

Aid from other local governments was not a significant part of total intergovernmental revenues. These aids comprised 6.2% of intergovernmental revenue for villages, 5.3% for cities, and 3.8% for towns. This aid was less significant for counties (0.6%).

Table 3: 2021 Intergovernmental Revenues to Municipalities and Counties

	<u>Towns</u>			<u>Villages</u>			<u>Cities</u>			<u>Counties</u>		
	Amount	Per Capita	% of IGR	Amount	Per Capita	% of IGR	Amount	Per Capita	% of IGR	Amount	Per Capita	% of IGR
Direct Federal Aid												
Public Safety	\$1,492,484	\$1	0.4%	\$3,025,673	\$3	1.3%	\$94,530,771	\$29	6.2%	\$4,683,987	\$1	0.2%
Health and Social Services	0	0	0.0	1,974,631	2	0.8	30,423,642	9	2.0	131,073,352	22	6.1
Transportation	2,595,873	2	0.7	2,264,604	2	0.9	24,306,543	7	1.6	24,044,012	4	1.1
Sanitation	7,586	< 1	< 0.1	29,142	< 1	< 0.1	428,006	< 1	< 0.1	0	0	0.0
Culture and Recreation	3,327	< 1	< 0.1	451,753	< 1	0.2	2,636,487	1	0.2	4,701,220	1	0.2
Community Development	546,131	< 1	0.2	4,280,129	4	1.8	89,091,548	27	5.9	37,291,704	6	1.7
Other	<u>63,724,522</u>	<u>39</u>	<u>17.9</u>	<u>22,696,370</u>	<u>22</u>	<u>9.5</u>	<u>132,985,869</u>	<u>41</u>	<u>8.8</u>	<u>199,710,041</u>	<u>34</u>	<u>9.3</u>
Total Federal Aid	\$68,369,923	\$42	19.2%	\$34,722,302	\$34	14.6%	\$374,402,866	\$115	24.7%	\$401,504,316	\$68	18.7%
State Aid (Includes Federal Aids Paid Through the State)												
County and Municipal Aid	\$57,265,370	\$35	16.1%	\$89,024,615	\$86	37.3%	\$615,888,267	\$190	40.6%	\$161,824,540	\$27	7.6%
Expenditure Restraint	75,679	< 1	< 0.1	5,433,170	5	2.3	53,802,851	17	3.6	0	0	0.0
General Government	0	0	0.0	36,893	< 1	< 0.1	115,251	< 1	< 0.1	43,162,691	7	2.0
Public Safety	8,955,204	6	2.5	7,566,945	7	3.2	23,191,904	7	1.5	29,274,097	5	1.4
Health and Human Services	12,925	< 1	< 0.1	1,690,003	2	0.7	8,716,371	3	0.6	1,148,907,190	195	53.6
Transportation	187,677,513	116	52.6	64,293,490	62	27.0	218,305,278	67	14.4	172,735,022	29	8.1
Sanitation	2,399,519	1	0.7	2,233,847	2	0.9	10,341,657	3	0.7	3,508,802	1	0.1
Culture and Recreation	186,935	< 1	< 0.1	2,300,817	2	1.0	9,354,433	3	0.6	30,749,892	5	1.5
Community Development	2,939	< 1	< 0.1	2,436,218	2	1.0	12,802,199	4	0.8	15,103,355	3	0.7
Forestry and Conservation	11,271,712	7	3.2	250,670	< 1	0.1	242,774	< 1	< 0.1	32,428,460	5	1.5
Payments for Mun. Services	364,398	< 1	0.1	517,865	< 1	0.2	17,593,959	5	1.2	563,200	< 1	< 0.1
Other	<u>6,343,767</u>	<u>4</u>	<u>1.8</u>	<u>12,919,006</u>	<u>13</u>	<u>5.4</u>	<u>90,930,675</u>	<u>28</u>	<u>6.0</u>	<u>89,553,411</u>	<u>15</u>	<u>4.2</u>
Total State Aid	\$274,555,961	\$170	77.0%	\$188,703,539	\$183	79.2%	\$1,061,285,619	\$327	70.0%	\$1,727,810,660	\$293	80.7%
Total Local Aid	<u>\$13,681,301</u>	<u>\$9</u>	<u>3.8%</u>	<u>\$14,954,973</u>	<u>\$14</u>	<u>6.2%</u>	<u>\$79,825,154</u>	<u>\$25</u>	<u>5.3%</u>	<u>\$13,414,555</u>	<u>\$2</u>	<u>0.6%</u>
TOTAL IGR	\$356,607,185	\$221	100.0%	\$238,380,814	\$231	100.0%	\$1,515,513,639	\$467	100.0%	\$2,142,729,531	\$363	100.0%

Rationale for State Aid to Local Governments

States provide aid to local units of government for a number of reasons. Although not exhaustive, the following list describes several of these reasons.

1. *Spreading Costs.* Some local services are provided to residents of other communities. State aid may help to ensure that local residents do not bear the entire burden of providing these services. For example, major streets in urban areas serve commuters from other areas. State transportation aid helps to offset the cost borne by urban residents.

2. *Tax Base Equalization.* The purpose of tax base equalization is to provide funds to equalize local governments' fiscal capacity by channeling proportionately larger amounts of aid to fiscally weak jurisdictions. Local governments vary in the amount of tax base per resident and the costs of providing local services. Through equalization, tax rates are equalized for local governments possessing equal spending levels. Although the state no longer distributes aid to municipal and county governments under tax base equalization, general state aids to elementary and secondary school districts are allocated under an equalizing formula.

The policy of tax base equalization has been pursued for several reasons. First, it can remove fiscal capacity as a barrier to providing local

services. Second, equalization may accomplish a limited degree of income redistribution, providing more state assistance to areas with low total fiscal capacity. Third, equalization can reduce the variance in local tax rates, making it easier for areas with low fiscal capacity to compete for new development.

3. *Replacing Lost Tax Base.* The exemption of a class of property from local taxation may result in a burdensome shift in taxes to owners of the remaining taxable property. State aid can cushion and spread the burden of the revenue lost due to the exemption.

4. *Substituting State Taxes for Local Taxes.* Using state aid to help finance local government may improve the overall equity in the state-local tax system. The state income tax, in particular, is generally perceived to be more progressive, equitable, and better related to the taxpayer's ability to pay than the property tax.

5. *Funding Local Mandates.* Local governments provide a wide variety of services that are required by state law. The provision of state aid helps to offset the cost of these services.

A concern raised with state aid is the trade-off between stimulating local expenditures and substituting state revenues for local revenues. Either or both responses by local governments are possible. Depending on the state's reasons for providing local aid, provisions can be built into the aid system to address this concern.

APPENDIX I

Explanations of Expenditure Categories Used in Table 1

General Administration. These are the resources expended for legislative, judicial, and general government support, including governing boards, judges, attorneys, clerks, treasurers, assessors, financial administration, and planning activities.

Public Safety. This includes police, fire, emergency communications (911), ambulance, and correctional facilities.

Health and Human Services. This includes health programs, drug abuse, mental health, services to the aged, medical and health care services for indigent individuals, veterans programs, income maintenance administration, and other human service programs.

Transportation. This includes highway maintenance, traffic control, street lighting, bicycle trails, parking lots, meters and ramps, mass transit, airports, and docks and harbors.

Sanitation. This includes sanitary sewers and treatment plants for sewer departments, refuse collection, storm water drainage, and landfill operations.

Recreation and Education. This includes

libraries, recreation programs, parks, recreational facilities, and educational programs.

Conservation and Development. This includes expenditures for public housing, economic development, county forestry projects, conservation of natural resources, and administration of planning policies and zoning laws.

Principal and Interest. This includes repayment of the principal and interest on bonds, long-term notes, installment contracts, and state trust fund loans and interest on temporary loans. It does not include the payment of principal on temporary loans. However, this category does include repayment of refunding bonds.

Operation of Utilities. This includes operating expenses of water, electric, gas, and other miscellaneous utilities.

Other. This includes surplus funds applied to reduce the tax levies of other jurisdictions, expenditures from internal services accounts, and miscellaneous expenditures not classified elsewhere.

Total. This is the sum of the preceding 10 categories.

APPENDIX II

Explanations of Revenue Categories Used in Table 2

Taxes. This includes the municipal and county shares of general property taxes, county sales taxes, room taxes, special assessments, and other miscellaneous local taxes.

Intergovernmental Revenues. This includes direct federal aid, state aid, federal aid paid through the state, and aid from other local governments.

Licenses and Permits. This includes liquor licenses, building and zoning permits, and other regulatory permits and fees.

Fines and Forfeitures. This includes police fines, contract forfeitures, judgments, and damage awards.

Public Charges for Services. This includes fees charged for a variety of public services, such as parking fees, golf course fees, mental health service fees, and other user charges.

Intergovernmental Charges. This includes revenues received from other governmental units for services provided.

Long-Term Debt. This includes proceeds from long-term general obligation bonds, notes, state trust fund loans, and installment purchase contracts.

Interest Income. This includes interest earned on invested funds and interest and penalty charges on special assessments.

Utility Revenues. This includes user fees and other revenues from water, gas, electric, and other miscellaneous utilities.

Other. This includes miscellaneous revenues.

Total. This is the sum of the preceding 10 categories.